

# Audit Report

## **Huron County Health Department WIC Program**

October 1, 2001 – September 30, 2002



Office of Audit  
Quality Assurance and Review Section  
August 2004



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August 16, 2004

Gretchen Tenbusch, R.N., M.S.A.  
Health Officer  
Huron County Health Department  
1142 S. Van Dyke  
Bad Axe, Michigan 48413

Dear Ms. Tenbusch:

Enclosed is our final report from the Michigan Department of Community Health (MDCH) audit of the Huron County Health Department WIC Program for the period October 1, 2001 through September 30, 2002.

The final report contains the following: description of agency; funding methodology; purpose and objectives; scope and methodology; conclusions, findings and recommendations; Statement of MDCH Grant Program Revenues and Expenditures; and a corrective action plan. The corrective action plan includes the agency's paraphrased response to the Preliminary Analysis.

Thank you for the cooperation extended throughout this audit process.

Sincerely,

A handwritten signature in cursive script that reads "Debra S. Hallenbeck".

Debra S. Hallenbeck, Manager  
Quality Assurance and Review  
Office of Audit

cc: Alethia Carr, Director, WIC Division  
James B. Hennessey, Director, Office of Audit  
David Figg, Audit Manager, Office of Audit

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## **DESCRIPTION OF AGENCY**

The Huron County Health Department (Health Department) is governed under the Public Health Code, Act 368 of 1978. The Health Department is a Special Revenue Fund of Huron County, and the administrative office is located in Bad Axe, Michigan. The Health Department operates under the legal supervision and control of the Board of Commissioners of Huron County. The Health Department provides community health program services to the residents of Huron County. These services include: AIDS/HIV prevention, Breast and Cervical Cancer Control, Bioterrorism-incurred costs & planning, Food Service Sanitation, Children's Special Health Care Services (CSHCS), Communicable Disease Control, Immunizations, Women Infants and Children (WIC) Supplemental Food Program, Hearing Screening, Vision Screening, Maternal Outreach and Advocacy, and Sexually Transmitted Disease Control.

## **FUNDING METHODOLOGY**

The Health Department services are funded from local appropriations, fees and collections, and grant programs. The Michigan Department of Community Health (MDCH) provides the Health Department with grant funding monthly, based on Financial Status Reports, in accordance with the terms and conditions of each grant agreement and budget.

Grant funding from MDCH for the WIC Program is federal funding under federal catalog number 10.557, and is first source funding, subject to performance requirements. That is, reimbursement from MDCH is based upon the understanding that a certain level of performance (measured in caseload established by MDCH) must be met in order to receive full reimbursement of costs (net of program income and other earmarked sources) up to the contracted amount of grant funds prior to any utilization of local funds.

## **PURPOSE AND OBJECTIVES**

The purpose of this audit was to assess the WIC Program internal controls and financial reporting, and to determine the MDCH share of WIC Program costs. The following were the specific objectives of the audit:

1. To assess the Health Department's effectiveness in establishing and implementing internal controls over the WIC Program.
2. To assess the Health Department's effectiveness in reporting their WIC Program financial activity to MDCH in accordance with applicable MDCH requirements and agreements, applicable federal standards, and generally accepted accounting principles.
3. To determine the MDCH share of costs for the WIC Program in accordance with applicable MDCH requirements and agreements, and any balance due to or due from the Health Department.

## SCOPE AND METHODOLOGY

We examined the Health Department's records and activities for the fiscal period October 1, 2001 to September 30, 2002. We performed our review procedures in January 2004. Our review procedures included the following:

- Reviewed the most recent Huron County Single Audit report for any WIC Program concerns.
- Completed the internal control questionnaire.
- Reconciled the WIC Program Financial Status Report (FSR) to the accounting records.
- Reviewed payroll expenditures.
- Tested a sample of expenditures for program compliance, and policy and approval procedures.
- Reviewed indirect cost and other cost allocations for reasonableness, and an equitable methodology.
- Reviewed building space/lease costs for proper reporting and compliance with Federal Requirements.
- Reviewed WIC equipment inventory records.
- Reviewed WIC coupon inventory controls.

Our audit did not include a review of program content or quality of services provided.

## CONCLUSIONS, FINDINGS AND RECOMMENDATIONS

### INTERNAL CONTROLS

**Objective 1:** To assess the Health Department's effectiveness in establishing and implementing internal controls over the WIC Program.

**Conclusion:** The Health Department was effective in establishing and implementing internal controls over the WIC Program. No internal control exceptions were noted.

### FINANCIAL REPORTING

**Objective 2:** To assess the Health Department's effectiveness in reporting their WIC Program financial activity to MDCH in accordance with applicable MDCH requirements and agreements, applicable federal standards, and generally accepted accounting principles.

**Conclusion:** The Health Department generally reported their WIC Program financial activity to MDCH in accordance with applicable MDCH requirements and agreements, applicable federal standards, and generally accepted accounting principles. However, we noted exceptions with the Agency Support Indirect Cost Rate (Finding 1).

## **Finding**

### **1. Agency Support Indirect Cost Rate Inaccurate**

The Health Department's Agency Support Indirect Cost Rate contained errors and an omission.

In our review of the Agency Support Indirect Cost Rate, we noted the following errors and omission:

- A. The indirect cost used in the reported indirect rate was under-reported for salary, fringe benefits, and other expense totaling \$63,560.
- B. The indirect cost used in the reported indirect rate was under-reported due to the omission of the County Central Service Cost allocation of \$18,097.

Per Federal Office of Management and Budget (OMB) Circular A-87 Cost Principles, Section F – Indirect Costs, Indirect costs are those incurred for a common or joint purpose benefiting more than one cost objective. Errors and omissions in the indirect cost pool and indirect rate computation result in inaccurate overhead cost allocations to programs. This overhead cost allocation is very important in analyzing and reporting the correct total cost to operate each program.

The net adjustments to correct the above errors and omission resulted in an increase to the Agency Support Indirect Cost Pool of \$81,657 that resulted in an increase to the indirect rate to 35.10% from the reported 28.77%. For the WIC Program, the rate increase resulted in additional indirect cost of \$3,773, which is shown on the attached Statement of MDCH Grant Program Revenues and Expenditures. This adjustment does not affect the WIC grant funds since the grant funds were already fully spent.

## **Recommendation**

We recommend that the Health Department implement review procedures to ensure that actual, final Agency Support cost, including County Central Service Costs are included in the computation of the Agency Support Indirect Cost Rate.

## **MDCH SHARE OF COSTS AND BALANCE DUE**

**Objective 3:** To determine the MDCH share of costs for the WIC Program in accordance with applicable MDCH requirements and agreements, and any balance due to or due from the Health Department.

**Conclusion:** The MDCH obligation under the WIC Program for fiscal year ended September 30, 2002, is \$118,885. The attached Statement of MDCH Grant Program Revenues and Expenditures shows the budgeted, reported, and allowable costs. The audit made no adjustments affecting WIC grant program funding.

**Huron County Health Department  
WIC Supplemental Food Program  
Statement of MDCH Grant Program Revenues and Expenditures  
10/1/01 - 9/30/02**

	<b>BUDGETED</b>	<b>REPORTED</b>	<b>AUDIT ADJUSTMENT</b>	<b>ALLOWABLE</b>
<b>REVENUES:</b>				
MDCH Grant	\$118,885	\$118,885 <sup>1</sup>	\$0	\$118,885
Local Funds	\$4,343	\$107	\$3,773	\$3,880
<b>TOTAL REVENUES</b>	<b>\$123,228</b>	<b>\$118,992</b>	<b>\$3,773</b>	<b>\$122,765</b>
<b>EXPENDITURES:</b>				
Salary and Wages	\$49,288	\$48,766	\$0	\$48,766
Fringe Benefits	\$22,584	\$21,246	\$0	\$21,246
Equipment	\$0	\$0	\$0	\$0
Contractual	\$0	\$0	\$0	\$0
Supplies	\$3,325	\$8,350	\$0	\$8,350
Travel	\$260	\$211	\$0	\$211
Communications	\$680	\$562	\$0	\$562
Space Cost	\$5,164	\$5,164	\$0	\$5,164
Other Expense	\$13,251	\$6,017	\$0	\$6,017
Indirect Cost	\$20,800	\$20,800	\$3,773 <sup>2</sup>	\$24,573
Nursing Administration	\$7,876	\$7,876	\$0	\$7,876
<b>TOTAL EXPENDITURES</b>	<b>\$123,228</b>	<b>\$118,992</b>	<b>\$3,773</b>	<b>\$122,765</b>

<sup>1</sup> Actual MDCH payments. MDCH funding was provided on a performance reimbursement basis.

<sup>2</sup> Recomputed Agency Support Indirect Cost Rate and Allocation to WIC (Finding 1).

## **Corrective Action Plan**

**Finding Number:** 1

**Page Reference:** 3

**Finding:** Agency Support Indirect Cost Rate Inaccurate

The Health Department's Agency Support Indirect Cost Rate contained errors and an omission.

**Recommendation:** Implement review procedures to ensure that actual, final Agency Support cost, including County Central Service Costs are included in the computation of the Agency Support Indirect Cost Rate.

**Comments:** The Health Department agrees with this finding.

**Corrective Action:** The Health Department is currently using actual costs to compute the indirect rate, including central service costs.

**Anticipated**

**Completion Date:** Immediately.

**MDCH Response:** No comments.